GOVERNMENT OF THE VIRGIN ISLANDS
OF THE
UNITED STATES

Public Services Commission

To: **Marlene H. Dortch**
Office of the Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Vice President – High Cost & Low Income Division
Universal Service Administrative Company
2000 L Street, N.W. Suite 200
Washington, DC 20036

RE: CC Docket 96-45, WC Docket 10-90 – Annual State Certification of Support for Eligible Telecommunications Carriers Pursuant to 47 C.F.R. § 54.314

Pursuant to the requirements of 47 C.F.R. § 54.314, the Virgin Islands Public Services Commission hereby certifies to the Federal Communications Commission and the Universal Service Administrative Company that VITELCO, is eligible to receive federal high-cost support for the program years cited.

The Public Services Commission of the Virgin Islands certifies for VITELCO that all federal high-cost support provided to that carrier was used in the preceding calendar year (2014) and will be used in the coming calendar year (2016) only for the provision, maintenance and upgrading of facilities and services for which the support is intended.

I am authorized to make this certification on behalf of the Public Services commission of the Virgin Islands. This certification is for study area 643300 for the Territory of the United States Virgin Islands.

Dated this <u>25th</u> day of September 2015.

Andrew Rutnik
Vice-Chairman
Virgin Islands Public Services Commission
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September 14, 2015

Mr. Johann Clendenin
Chairman
Public Services Commission of the
United States Virgin Islands
P.O. Box 40
Charlotte Amalie, USVI 00804

Re: Federal USF Certification – VITELCO

PUBLIC VERSION

Dear Mr. Clendenin:

This letter presents GCG's analysis in connection with the annual certification from the Virgin Islands Public Services Commission ("PSC" or "Commission") that VITELCO has complied with Section 254(e) of the federal Telecommunications Act of 1996 ("Federal Act") during calendar year 2014 and will comply in the upcoming calendar year. VITELCO receives monies from interstate universal service funds (USF) that are designated to support local services, build needed infrastructure and improve service quality. Each year, the PSC is required to certify to the Federal Communications Commission ("FCC") and Universal Service Administrative Company ("USAC") that those funds have been and will be used only for the purposes designated in the Federal Act.

Annual certification is required under Section 54.314(a) of the FCC rules. USF will be denied to any "Eligible Telecommunications Carrier" ("ETC") that is not certified by its state regulatory agency. If the Commission does not file the certification with the FCC and USAC by October 1, the ETC will be denied funds on a pro-rata basis for the period that the certification is delayed.[1]

Please note that states must certify that federal high-cost and Connect America Fund ("CAF") support was used only for the provision, maintenance and upgrading of the facilities and services for which the support is intended, BOTH for the most recent calendar year AND

[1] The FCC modified its rule regarding late filings in its Report and Order, *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, et al,* WC Docket No. 10-90, et al, Released December 18, 2014, FCC 14-190. Previously, support was denied for each quarter the certification was delayed.

for the upcoming calendar year. This rule applies regardless of the high-cost or CAF program under which the support was provided. In order for the Commission to be comfortable making this certification, the Commission must rely on the recent performance by VITELCO and on the Commission's ongoing monitoring efforts. Our review was based primarily on performance during calendar year 2014 but was supplemented, where appropriate, by available data for year-to-date 2015.

Please note that the FCC has made many changes to the USF program in the last several years in connection with a transition to supporting broadband in lieu of traditional voice services. These changes are discussed later in this report. However, VITELCO has opted not to participate in the new funding mechanisms at this time. Consequently, this report is based on the same kind of analysis we have used in the past.

VITELCO sought confidential treatment for some of the information GCG relied upon for the USAC review. Where it was necessary to include this information in this report, the paragraphs or tables containing the information alleged to be confidential are marked "CONFIDENTIAL" before and after the paragraphs or tables.

Background

Section 254(b)(1) of the Federal Act established the principle that affordable and high quality telephone service should be available throughout the United States. "Quality services should be available at just, reasonable, and affordable rates."

Section 254(b)(3) specifically addresses high cost insular areas such as the US Virgin Islands:

> "Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, *including* interexchange services and *advanced telecommunications and information services*, that are *reasonably comparable to those services provided in urban areas* and that are available *at rates that are reasonably comparable* to rates charged for similar services in urban areas." [Emphasis added.]

Thus, the federal universal service programs are designed to

1.) provide funds to increase telephone subscribership by keeping rates as low as possible,
2.) ensure high quality of service,
3.) build telecommunications infrastructure and encourage deployment of advanced services.

In order to accomplish these goals, the Federal Act established an explicit funding mechanism – the USF - under the direction of the FCC. Only ETCs may receive USF support. USF is administered for the FCC by USAC, an affiliate of the National Exchange Carrier Association. Funds collected through a surcharge on end users of interstate services were made available to ETCs in high cost areas until 2012 based on a formula that recognized the higher cost of serving rural areas compared to urban areas.

The FCC made sweeping changes to the federal universal service programs in its November 18, 2011 *USF Transformation Order*. [2] These changes were driven by the fundamental shift in the communications paradigm in the United States from primarily voice grade to a mix of voice grade and broadband. Among these changes was a restructure of the high-cost program into several new funds. Over time, the Connect America Fund ("CAF") will replace the legacy high-cost fund. It is designed to make broadband available in areas that do not, and would not otherwise, have access to adequate broadband services. It is designed to provide support only in those areas where a federal subsidy is needed to ensure the build-out of broadband networks. CAF broadband support will ultimately be distributed based on market driven policies including cost modeling and competitive bidding. (This is referred to as "CAF Phase II"). Price-cap[3] ILECs[4] such as VITELCO had the option to accept funding based on the broadband cost model[5] which was developed by the FCC and released last year. VITELCO has chosen not to accept that funding[6] so its USF support has been frozen at the same level it received in 2011. Frozen high-cost support will continue until replaced by broadband support based on competitive bidding.[7] At this time the length of time VITELCO may continue receiving frozen support is unknown. However, we assume that it will be available at least through 2016. For 2014, it received $16,360,728 in Frozen High-Cost USF support.

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[2] *In the Matter of Connect America Fund, et. al.*, WC Docket No. 10-90, et. al., Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (released November 18, 2011)("*USF Transformation Order*")
[3] "Price cap" regulation sets prices according to an index that reflects the overall rate of inflation in the economy and the ability of the operator to gain efficiencies. In general, prices can be changed periodically by the service provider to meet changing market conditions but within limits set by the regulator. VITELCO is regulated for interstate services under price caps by the FCC but is a rate-of-return carrier for local rate making purposes.
[4] An "Incumbent Local Exchange Carrier" is any wireline carrier that provided local telecommunications services before the local market was opened to competition. The term specifically excludes wireless carriers.
[5] The Broadband Cost Model is a forward-looking economic simulation of the costs of building an efficient broadband network. It is designed to reflect the differences in cost that are driven by factors such as terrain and population density but assumes the most efficient network design. The model was used by the FCC to estimate the amount of capital expenditure needed to build a broadband network where such a network does not already exist.
[6] VITELCO has not shared its reasons for declining model based support. However, we believe this decision may have been made because the Company has just completed construction of an advanced broadband-capable network under the Transfer of Control Agreement. Model based support is not available where existing infrastructure would support broadband at the capacity specified by the FCC.
[7] Current rules require the bidders in the auction to be designated as ETCs at the time of their bid. However, the FCC has proposed that a carrier would be allowed to bid even if not currently designated provided it sought ETC designation within 30 days after being notified that it won the bidding. The state regulatory agency would be given a limited amount of time to decide on the petition for ETC designation. See *In the Matter of Connect America Fund, et. al.*, WC Docket No. 10-90, et. al., Report and Order, Declaratory Ruling, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54 (released June 10, 2014)("*CAF Omnibus Order*")paragraphs 179-185

ETC Requirements

In its *USF Transformation Order*, the FCC extended the following reporting requirements which are included in Section 54.313 of the federal rules to all ETCs, including those designated by the states:[8]

(a) Any recipient of high-cost support shall provide:

(1) A progress report on its five-year service quality improvement plan pursuant to §54.202(a), including maps detailing its progress towards meeting its plan targets, an explanation of how much universal service support was received and how it was used to improve service quality, coverage, or capacity, and an explanation regarding any network improvement targets that have not been fulfilled in the prior calendar year. The information shall be submitted at the wire center level or census block as appropriate;

(2) Detailed information on any outage in the prior calendar year, as that term is defined in 47 CFR 4.5, of at least 30 minutes in duration for each service area in which an eligible telecommunications carrier is designated for any facilities it owns, operates, leases, or otherwise utilizes that potentially affect

(i) At least ten percent of the end users served in a designated service area; or

(ii) A 911 special facility, as defined in 47 CFR 4.5(e).

(iii) Specifically, the eligible telecommunications carrier's annual report must include information detailing:

(A) The date and time of onset of the outage;

(B) A brief description of the outage and its resolution;

(C) The particular services affected;

(D) The geographic areas affected by the outage;

(E) Steps taken to prevent a similar situation in the future; and

(F) The number of customers affected.

(3) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year. The carrier shall also detail how it attempted to provide service to those potential customers;

(4) The number of complaints per 1,000 connections (fixed or mobile) in the prior calendar year;

(5) Certification that it is complying with applicable service quality standards and consumer protection rules;

(6) Certification that the carrier is able to function in emergency situations as set forth in §54.202(a)(2);

(7) The company's price offerings in a format as specified by the Wireline Competition Bureau;

(8) The recipient's holding company, operating companies, affiliates, and any branding (a "dba," or "doing-business-as company" or brand designation), as well as universal service identifiers for each such entity by Study Area Codes, as that term

[8] *USF Transformation Order*, para. 573.

is used by the Administrator. For purposes of this paragraph, "affiliates" has the meaning set forth in section 3(2) of the Communications Act of 1934, as amended.

(9) Price cap carriers that receive frozen high-cost support shall provide a certification that at least two thirds of the frozen-high cost support the company received in 2014 was used to build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor.

In order to facilitate the oversight and certification requirements in Section 54.313, the FCC required all ETCs to file Form 481, Carrier Annual Reporting Data Collection Form, which serves as a vehicle for standardized reporting. The FCC intended for all states to use information on this form in their annual "Use" certifications. Form 481 was intended to supplement state requirements which could require more detail.

VITELCO's Request for Annual USAC Certification

As in the past annual "Use" certification reviews, VITELCO was asked for the certifications required under Section 54.313, the amount of USF received, local revenues and operating expenses by account, and the jurisdictional separations factors from the latest Part 36 study.

VITELCO submitted its request for certification on July 30, 2015. This submission was generally responsive to the reporting requirements contained in Section 54.313 and the PSC's usual reporting requirements.

The submission included a five year plan for the use of USF for the period FY 2016-FY 2020. The submission also included a copy of Form 481, and the revenue, expense and jurisdictional separations data we requested. VITELCO did not include Quality of Service results. Instead, we used the 2013-2015 QoS results submitted in VI PSC Docket No. 549 in this "Use" certification review.

Analysis of VITELCO's Submission

Under Section 54.314(a), the PSC must certify that ETCs under their jurisdiction will use USF only for the provision, maintenance and upgrading of facilities and services for which the support was intended. As mentioned earlier, the Federal Telecom Act of 1996 makes it clear that the support was intended to provide affordable, high quality and universally available services to all parts of the Nation, including rural and insular areas such as the Virgin Islands. The Act also intended USF to be used to support the deployment of advanced services. Thus there are three main areas on which we must base our analysis to determine compliance with the certification requirements:

1. The extent to which USF was used to subsidize local rates;
2. The extent to which USF was used to upgrade or expand the network to provide basic and advanced services; and
3. The extent to which basic service meets quality standards.

In 2014, VITELCO received $16,360,728 in Frozen High-Cost support. This amount was based on the total received in 2011 without consideration of out-of-period adjustments. Under the previous USF mechanism, VITELCO received $3,505,308 in High Cost Loop Support ("HCLS") which was intended to help defray the costs of operating a local telephone network. The remaining $12.8 million was provided through the Interstate Common Line Support ("ICLS") program which helped defray interstate revenue requirements that were not recovered through interstate access charge rates.[9] Since ICLS was wholly interstate in jurisdiction, it should not be considered when examining the extent to which local rates may have received USF support.[10] On the other hand, the entire amount of Frozen High-Cost support should be considered in the analysis of network enhancements because the network is used jointly for interstate and local services.

We anticipate that Frozen High-Cost support will continue at $16.4 million for at least several more years or until VITELCO or another ETC wins an auction to provide broadband infrastructure in the USVI.

Lifeline

Because all ETCs are required to offer a Lifeline discount to eligible consumers we asked the Company to provide a status of its Lifeline services. The federal low-income program provides a discount of $9.25 per month. VITELCO is also required to provide a local discount of $10.55 which is funded through local rates. As part of our "Use" certification review, we will continue to monitor the program in future reviews.

VITELCO reported that it had 625 Lifeline customers at the end of 2013, 484 at the end of 2014 and estimates that it will have about 425 at the end of 2015. The Company attributes the decline to competitive losses to other ETCs or to disenrollment as the result of the customers' failure to pass eligibility requirements.

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[9] Since the enactment of the Federal Telecommunications Act of 1996, the FCC created a number of mechanisms for allocating and managing USF support. The mechanisms that applied to any particular carrier depended on whether it was rural or non-rural, price-cap or rate of return for interstate access charges, the timing of its conversion to price-caps, whether it served more or less than 50,000 access lines and whether or not it participated in earlier interstate access charge reforms. The result was that carriers received support under a hodge-podge of different rules and regulations. VITELCO is classified as "rural" and until recently, it had more than 50,000 access lines.

[10] The FCC's universal service reforms are not expected to materially change the allocation of costs between interstate and local jurisdiction under the Part 36 rules. In the short term until companies can adjust their operations, interstate revenue requirements will stay at approximately the same level as before reform. According to the FCC, "the Commission recognized that the amount of support previously received under the different individual funding mechanisms it eliminated were still necessary for other calculations." For example, some of a carrier's interstate rates during CAF Phase I will still be calculated as if it received the same support as it received on 2011. See *In the Matter of Connect America Fund,* WC Docket No. 10-90, Order, DA 13-2101, (released October 30, 2013), para. 15. Consequently, the $12.8 million previously provided by ICLS cannot be used for support of local services.

When the PSC conducted its Lifeline review in 2012, VITELCO's policy was to terminate the Lifeline discount for any customer who switched to a bundle that included broadband Internet service. Since the Internet is now becoming an essential part of normal life, particularly for education and economic development, the Commission strongly encouraged the Company to change its policy. We are pleased to report that as of February17, 2015, eligible consumers are being offered a special discounted Internet rate of $15 per month with free installation. The service offers 1.0 Mbps where EVO is deployed and 512 Kbps DSL elsewhere. The consumer can choose the bundle of services (at regular bundled rates without the Lifeline discount) or can take the Lifeline telephone rate plus the discounted Internet rate.

VITELCO has been conducting outreach to extend the Lifeline program to more eligible consumers. It has printed and distributed Lifeline flyers in English and Spanish and has advertised the program. It has also participated in Lifeline awareness programs sponsored by the Commission.

Local Rates

This review is based on the 2014 cost and revenue data provided by the company. GCG did not independently validate that data for this analysis. As we noted in last year's report, some of the accounting issues GCG identified in the Transfer of Control proceeding and the 2009 earnings review remain outstanding. Further, the Commission is in the process of a new depreciation and rate review (Dockets 626 and 628) and the data submitted by the company in that proceeding is, for many accounts, radically different from the 2014 data used in this "Use" certification analysis. The 2014 data included the cost of a legacy network that was not yet retired. It was inefficient, in poor condition and over-depreciated. The new HFC network was not yet fully deployed. Consequently, the Company was incurring costs on both the legacy network and the new network. Accordingly, our reliance on the company's 2014 data should not be construed to be an acceptance of that data or the related Part 64 cost allocation study or Part 36 jurisdictional separations study.[11]

[11] Under the FCC's regulatory accounting rules, all assets, liabilities, revenues and expenses are first booked to accounts under the Uniform System of Accounts contained in Part 32 of the FCC rules. These account values are then directly assigned or allocated between regulated and non-regulated amounts under the FCC's Part 64 rules. The regulated amounts are further directly assigned or allocated to the interstate or intrastate/local jurisdictions under Part 36 rules. Both Part 64 and Part 36 allocations are based on the principle of cost causation. Where possible, costs are directly assigned. Where direct assignment is not possible, costs are allocated in proportion to some unit of measure that has a relationship to the cost. For example, wages of Outside Plant technicians may be allocated on the same basis as the outside plant they maintain. Where there is no other basis for allocation, costs are allocated based general factors such as the allocation of all other expenses.

Our review took into account all cross-service subsidies and the allocation of regulated costs to the local jurisdiction. Using the data provided by the company, we determined that the 2014 local revenue requirement exceeded local revenues, including directory advertising revenue, by more than the amount of USF attributable to local under the legacy HCL program. Therefore, it is reasonable for purposes of this proceeding to assume that USF could have been used to make up at least part of the shortfall. As noted earlier, a rate review of VITELCO local operations is currently in progress. It will be necessary to await the results of that review to determine whether there is, in fact, a shortfall to cover local revenue requirements.

The table below contains information alleged to be CONFIDENTIAL

			$ Thousands
			2014
1	Local Exchange Revenue Requirement		$XXXX
2	Net Local Revenues*		XXXX
3	Shortfall		XXXX
4	Frozen High Cost Support (Amount attributed to local operations)		3,505

* Does not include any USF support.

The table above contains information alleged to be CONFIDENTIAL

Network Enhancements

The paragraph below contains information alleged to be CONFIDENTIAL

VITELCO's CAPEX[12] for CY 2014 was $XXXXX. Since the company was in the fourth year of its HFC network conversion which supports both voice and broadband service, we are satisfied that any USF utilized as CAPEX was used for the purpose intended. VITELCO submitted a five-year plan covering 2016 to 2020 that is substantially in compliance with the PSC's requirements in that it includes specific projects along with budget estimates and starting and end dates by location. As could be expected, the bulk of the CAPEX will be used for routine plant replacement, customer line buildouts and capacity upgrades. There is also substantial amount each year that will be used for general support facilities and equipment such as vehicles, computers and building repairs and upgrades. The remaining projects are primarily new equipment for broadband services. Given that the company is operating an integrated network we are satisfied that the projects identified will generally support both voice and broadband services.

The paragraph above contains information alleged to be CONFIDENTIAL

[12] "CAPEX" means the amount of expenditures for construction or upgrade of fixed assets for the period.

Please note that the amounts identified as "Service Quality Improvement" in the chart below are also included as part of local exchange revenue requirements in the discussion above regarding local rates.

Based on the information provided by VITELCO, the amounts of USF not being used to underwrite the shortfall in local revenue requirements are being used appropriately to build or support infrastructure that is needed for both broadband and voice services.

The table below contains information alleged to be CONFIDENTIAL

The chart below summarizes the expenditures projected by VITELCO ($000):

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Voice/Broadband Capex		$XXXX	$XXXX	$XXXX	$XXXX	$XXXX
	Routine included above	XXXX	XXXX	XXXX	XXXX	XXXX
	General Support included above	XXXX	XXXX	XXXX	XXXX	XXXX
Service Quality Improvement		XXXX	XXXX	XXXX	XXXX	XXXX
Total Planned Expenditure		XXXX	XXXX	XXXX	XXXX	XXXX
Frozen High-Cost Support		16,361	16,361	16,361	16,361	16,361

The table above contains information alleged to be CONFIDENTIAL

<u>Service Quality</u>

We examined VITELCO's reported service quality results for 2013 to April 2015 as compared to the standards agreed upon by the Company and PSC staff in 2010. Overall, some progress has been made but service is still generally below expectations.

Customer Service call answer times have improved to where the standard is normally met. Directory Assistance answer times and the number of repair reports per 100 access lines have consistently been better than the standard. On average, there has been significant improvement in VITELCO's performance against the standard for installations (days between order and installation) although there are some weak spots. St. Thomas exceeds the standard while St. John and St. Croix have missed the objective for most of the last year.

Notwithstanding the progress noted above, VITELCO's performance clearing repair calls has been dismal. In fact, there has been a marked decline in performance during 2014 and the trend was even worse in 2015. The standard calls for 85% of repair calls to be resolved within 24 hours. For the first four months of 2015, only 26% were actually cleared. In fact, even after three days, only 55% have been cleared. Further, VITELCO has consistently missed its object of meeting repair commitments. On average, only 63% of the 2015 repair commitments were met. This is a serious decline from 2014 and 2013. In the past, St. John usually met the objective of 90% and the other two districts came close to the objective. It is difficult to understand why the Company's performance has declined. The average number of repair calls has been about the same level for several years. Despite a PSC requirement to provide an explanation of the poor performance and a remediation plan, VITELCO has not submitted one for several years. In its last remediation plan, the Company said the cure for its historically poor performance was the completion of the new network. That network is now substantially complete yet the numbers of repair tickets and the clearance rates have not improved. It is our experience that performance dispatching repair technicians and meeting commitments are primarily driven by management's emphasis on quality. No improvement can be expected until that happens.

VITELCO Quality of Service						
Metric	Objective	Average 1H/2013	Average 2H/2013	Average 1H/2014	Average 2H/2014	Average Jan-Apr 2015
Cust. Svc. calls answered within 20 seconds	90%	69%	92%	92%	90%	92%
Repair calls answered within 20 seconds	90%	71%	87%	89%	60%	72%
Total repair reports received						
St. Croix		1,053	1,292	923	973	1,082
St. Thomas		915	1,144	784	913	950
St. John		107	144	106	151	158
Total USVI		2,075	2,580	1,813	2,037	2,190
Repair calls cleared within 24 hrs						
St. Croix	85%	41%	48%	44%	29%	26%
St. Thomas	85%	42%	49%	55%	40%	27%
St. John	85%	55%	61%	59%	32%	21%
Weighted Average USVI	85%	42%	49%	50%	34%	26%
Repair calls cleared within 48 hrs						
St. Croix		49%	59%	54%	40%	40%
St. Thomas		50%	62%	67%	58%	49%
St. John		61%	72%	75%	51%	39%
Weighted Average USVI		50%	61%	61%	48%	44%
Repair calls cleared within 72 hrs						
St. Croix		59%	71%	68%	61%	49%
St. Thomas		60%	74%	75%	73%	62%
St. John		77%	86%	84%	66%	51%
Weighted Average USVI		60%	73%	72%	66%	55%
Orders held over 30 days – Average USVI		46.0	22.5	8.5	11.8	90.0
Repair commitments met						
St. Croix	90%	74%	81%	80%	77%	55%
St. Thomas	90%	74%	83%	86%	85%	71%
St. John	90%	86%	90%	91%	80%	68%
Weighted Average USVI		75%	82%	83%	80%	63%
Repair reports per 100 access lines	9.5	0.6	0.5	2.4	1.6	1.0
Number of Installations						
St. Croix		311	236	348	358	425
St. Thomas		413	428	654	671	804
St. John		50	26	37	46	61
Total		775	689	1039	1075	1,290
Customer installations completed within 5 days						
St. Croix	90%	70%	76%	88%	86%	86%
St. Thomas	90%	72%	86%	91%	92%	92%
St. John	90%	67%	76%	85%	83%	82%
Weighted Average USVI		71%	82%	90%	90%	90%
Directory Assistance call answer time	<10 sec.	4.35	7.46	8.86	8.00	8.61

This performance must also be considered within the context of the Stipulation in the Transfer of Control Agreement (TOCA). In that Stipulation, VITELCO agreed to achieve the QOS standards within 12 months of the adoption of new standards. Those standards were in place in May, 2010. It has now been over 5 years. Meeting QOS standards is required by the PSC's own rules and by the FCC in order to continue to receive USF support.

In our 2012 "Use" certification review, we recommended that the Commission withhold certification unless QoS performance improved. Although VITELCO rarely met the objectives, we noted some improvement in 2013 and 2014. Consequently, we recommended certification for those years. It now appears that repair performance is in serious decline. We suggest that the Commission consider taking some significant action going forward to ensure that VITELCO will devote sufficient attention and resources to this situation. One possibility is delaying certification until the Company provides a detailed action plan for how it will improve repair performance. Under the new FCC rules, VITELCO would lose support on a pro rata basis for each day the certification is delayed. Thus, it is entirely up to the Company to determine how quickly remediation efforts are to be put in place. Delays will cause potentially significant losses of USF revenues.

Another method might be to consider that if QOS standards are not met then some portion of the $3.5 million in local support be directly used as a credit against local and business line charges in keeping with the mandate that these funds be used to provide support for local services. This credit would apply until the Company provided a remediation plan and repair service metrics met the standard for at least three months. We suggest a credit of approximately 10% of the amount of USF applicable to local operations, prorated over 12 months and 40,000 lines. This would be about $0.75 per month for each subscriber line.[13]

Other Requirements

Regarding the other requirements in Section 54.313: of the federal rules:

> VITELCO reported four instances of widespread network outages lasting at least 30 minutes or affecting 911 services in 2014. Two of these incidents were caused by WAPA and were beyond the control of the Company.
>
> VITELCO reported that it had received 11 requests for voice services and 22 requests for broadband services during 2014 that it could not fulfill. We believe the unfulfilled requests are reasonable given the scale of network reconstruction during 2014.
>
> VITELCO reported receiving 1.899 complaints per 1,000 voice access lines and no complaints per broadband access line. We believe this is reasonable for a company of this size although the Commission may wish to inquire into the nature of the complaints. Earlier this year, the Commission conducted an open inquiry into

[13] $3,505,000 /10=$350,000. $350,000/12=$29,166 per month. $29166/40,000 subscribers=$0.73 per subscriber. Round to $0.75.

competition issues and the renewal of Innovative Cable Television's cable franchises. Numerous complaints were voiced by consumers, particularly regarding the batteries needed to power telephones during emergency situations which the PSC is continuing to monitor.

VITELCO certified that it would be able to function in emergency situations.

Finally, VITELCO provided the required information regarding pricing of services, corporate structure and affiliates.

In view of the above, we recommend that VITELCO's request for USAC certification should be temporarily withheld, at the PSC's discretion, contingent on the Company's submission of a plan for service quality improvement. Alternatively, the Commission could approve the certification and provide a subsidy to local residential and business lines equal to 10% of the local USF subsidy until such time as the QOS improves to meet the standards set by the PSC. We are attaching a draft certification letter that the PSC can submit once it is satisfied with the remediation plan.

Please call us if you have any questions about this report.

Cordially,

Jim Madan

Jamshed K. Madan

Cc: Walter Schweikert

Public Services Commission of the
United States Virgin Islands

To: Marlene H. Dortch
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Federal Communications Commission
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CC Docket 96-45, WC Docket 14-58 – Annual State Certification of Support for Eligible Telecommunications Carriers Pursuant to 47 C.F.R. § 54.314

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I am authorized to make this certification on behalf of the Public Services Commission of the Virgin Islands. This certification is for study area 643300 for the Territory of the United States Virgin Islands.

Dated this __th day of , 2015.

Johann A. Clendenin
Chairman
Virgin Islands Public Services Commission
(340) 778-6010